

## **Patient selection and hospitals' inpatient financial performance under Medicare**

**ISSUE:** In its recent mandated study of physician-owned specialty hospitals, MedPAC found that Medicare patients in some diagnosis related groups (DRGs), and low-severity patients within DRGs, were relatively more profitable than the average patient in fiscal year 2002. Further, some hospitals had a favorable selection—serving predominately these kinds of patients—while others had an unfavorable selection. This analysis explores the relationship between selection and hospitals' financial performance under Medicare's inpatient prospective payment system (IPPS) in 2002. Our hypothesis is that hospitals' inpatient profitability rises as their patient selection becomes increasingly favorable.

**KEY POINTS:** We will summarize preliminary findings from our analysis of patient selection and hospitals' Medicare inpatient financial performance measured by their payment to cost ratios.

**ACTION:** We would appreciate comments and suggestions from the Commission on this topic.

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